

CITY OF COLFAX, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2009

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City of Colfax, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Mast	Mayor	January, 2012
Curtis Small	Council Member	January, 2012
Bob Brown	Council Member	January, 2010
Bryan Poulter	Council Member	January, 2012
Steve Theis	Council Member	January, 2012
Kathryn Gullion	Council Member	January, 2010
Kathy Mathews	City Clerk	Indefinite
Larry Opfer	Treasurer	Indefinite
Ken Walker	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Colfax

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our reports on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Colfax's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the five years ended June 30, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

January 27, 2010

Pollard and Company P.C.

CITY OF COLFAX MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Colfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements and the accompanying notes, which follow.

FINANCIAL HIGHLIGHTS

- The City's receipts totaled \$2,332,048 for the year ended June 30, 2009, a 3% decrease from 2008.
- Disbursements for the year totaled \$2,310,294 which is an 8% decrease from 2008.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the city as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets are divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and garbage/landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Government funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The major governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax, Local Option Sales Tax, Hotel/Motel Tax Fund, and Employee Benefits Fund; 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Transfers In and Out are used to accumulate resources and allocate those resources internally among the City's various funds.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds are used to report business type activities. The City maintains three funds to provide separate information for the water, sewer, and garbage/landfill funds considering these to be major funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, by \$21,754 during the year ended June 30, 2009.

The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets		
	<u>Year ended June 30,</u>	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	1,049,994	953,422
Operating grants, contributions and restricted interest	278,444	399,870
Bond proceeds		86,648
General receipts:		
Property tax	684,230	627,494
Other general receipts	92,481	113,383
Hotel/motel and local option taxes	226,899	229,257
Total receipts	2,332,048	2,410,074
Disbursements:		
Water	302,196	357,464
Sewer	371,854	409,423
Landfill	132,402	139,501
Total business type disbursements	806,452	906,388
Public safety disbursements	486,489	408,237
Public works disbursements	335,071	503,078
Culture and recreation	256,398	186,962
Community and economic development	43,916	83,565
General government	180,088	177,694
Debt service	201,880	242,514
Total governmental activities	1,503,842	1,602,050
Total	2,310,294	2,508,438
Cash basis net assets beginning of year	1,612,518	1,710,882
Cash basis net assets end of year	1,634,272	1,612,518

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

- The General Fund has a deficit balance of \$ 292,677. This deficit balance increased \$ 42,054 during the year. The City will continue to cut spending when possible.
- Employee Benefit Fund cash balance has a surplus of \$ 80,121.
- The Debt Service Fund cash balance has a deficit of \$ 21,431 after disbursements for the year and an increase in property tax receipts. The City will need to increase the debt service levy in an upcoming budget.
- The Road Use tax fund has a deficit balance of \$ 54,167 which was created because of project expenditures which were made ahead of receipts in prior years. The receipt of future revenues will be used to offset the deficit.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$ 76,133.
- The Sewer Fund cash balance increased \$5,096.
- The Garbage/Landfill cash balance increased \$ 11,831.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$2,062,637 in bonds and other long-term debt, compared to \$2,342,957 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2009	2008
General obligation bonds	555,548	725,007
Revenue notes	<u>1,507,089</u>	<u>1,617,950</u>
Total	2,062,637	2,342,957

The City's outstanding general obligation debt of \$555,548 is below its constitutional debt limit of 5 % of the taxable value of the properties.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Colfax's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2009 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slow residential housing market and modest increases in energy prices in 2008-2009.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$2,269,000, a slight decrease over the final 2009 budget. Budgeted disbursements are expected be \$2,440,000. The City has added no major new programs or initiatives to the 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by the close of 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy L. Mathews, City Clerk, 15 E Howard, Colfax, Iowa.

City of Colfax, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2009

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 486,489	\$ 92,643	\$ 50,014	\$ -
Public works	335,071	-	226,957	-
Culture and recreation	256,398	27,013	1,473	-
Community and economic development	43,916	-	-	-
General government	180,088	65,673	-	-
Debt service	201,880	-	-	-
Total governmental activities	1,503,842	185,329	278,444	-
Business Type Activities				
Water	302,196	344,335	-	-
Sewer	371,854	376,314	-	-
Sanitation	132,402	144,016	-	-
Total business type activities	806,452	864,665	-	-
Total	\$ 2,310,294	\$ 1,049,994	\$ 278,444	\$ -

General Receipts

Property tax levied for
General purposes
Tax increment financing
Debt service
Local option sales tax
Hotel/motel tax
Unrestricted interest on investments
Repayment of TIF debt
Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

Restricted (Deficit)

Streets

Debt service

Other purposes

Unrestricted (deficit)

Total cash basis net assets

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash
Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (343,832)	\$ -	\$ (343,832)
(108,114)	-	(108,114)
(227,912)	-	(227,912)
(43,916)	-	(43,916)
(114,415)	-	(114,415)
(201,880)	-	(201,880)
(1,040,069)	-	(1,040,069)
-	42,139	42,139
-	4,460	4,460
-	11,614	11,614
-	58,213	58,213
\$ (1,040,069)	\$ 58,213	\$ (981,856)

447,248	-	447,248
23,036	-	23,036
213,946	-	213,946
159,902	-	159,902
66,997	-	66,997
19,999	11,811	31,810
(23,036)	23,036	-
59,767	-	59,767
904	-	904
968,763	34,847	1,003,610
(71,306)	93,060	21,754
76,593	1,535,925	1,612,518
\$ 5,287	\$ 1,628,985	\$ 1,634,272

\$ (54,167)	\$ -	\$ (54,167)
(21,431)	747,913	726,482
373,562	-	373,562
(292,677)	881,072	588,395
\$ 5,287	\$ 1,628,985	\$ 1,634,272

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2009

	Special Revenue			
	General	Road Use Tax	Local Option SalesTax	Hotel/Motel Tax
Receipts				
Property Taxes	\$ 295,779	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	-	-	-
Other City Tax	9,678	-	159,902	66,997
Licenses and Permits	9,198	-	-	-
Use of Money and Property	13,905	-	1,351	1,553
Intergovernmental	30,041	226,957	-	-
Charges for Services	119,656	-	-	-
Special assessments	46,797	-	-	-
Miscellaneous	70,059	10,754	-	-
Total Receipts	<u>595,113</u>	<u>237,711</u>	<u>161,253</u>	<u>68,550</u>
Disbursements				
Operating				
Public Safety	423,743	-	-	-
Public Works	-	323,662	-	-
Culture and Recreation	168,925	-	71,595	-
Community and Economic Development	3,001	-	-	40,915
General Government	151,811	-	-	-
Debt Service	-	-	-	-
Total Disbursements	<u>747,480</u>	<u>323,662</u>	<u>71,595</u>	<u>40,915</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(152,367)</u>	<u>(85,951)</u>	<u>89,658</u>	<u>27,635</u>
Other financing sources (uses)				
Repayment of TIF Debt	-	-	-	-
Inter-fund loan	-	100,000	(100,000)	-
Operating transfers in	110,313	-	-	-
Operating transfers out	-	-	(73,708)	(32,511)
Total other financing sources (uses)	<u>110,313</u>	<u>100,000</u>	<u>(173,708)</u>	<u>(32,511)</u>
Net change in cash balances	<u>(42,054)</u>	<u>14,049</u>	<u>(84,050)</u>	<u>(4,876)</u>
Cash balance (deficit) - beginning of year	<u>(250,623)</u>	<u>(68,216)</u>	<u>245,091</u>	<u>71,216</u>
Cash balance (deficit) - end of year	<u>\$ (292,677)</u>	<u>\$ (54,167)</u>	<u>\$ 161,041</u>	<u>\$ 66,340</u>
Cash basis fund balances (deficit)				
Unreserved				
Debt service	\$ -	\$ -	\$ -	\$ -
General fund	(292,677)	-	-	-
Special revenue funds	-	(54,167)	161,041	66,340
Permanent fund	-	-	-	-
Total cash basis fund balances (deficit)	<u>\$ (292,677)</u>	<u>\$ (54,167)</u>	<u>\$ 161,041</u>	<u>\$ 66,340</u>

The accompanying notes to financial statements are an integral part of this statement.

Special Revenue

		Other Nonmajor Governmental			
Employee Benefits	Debt Service	Funds	Total		
\$ 151,469	\$ 213,946	\$ -	\$ 661,194		
-	-	23,036	23,036		
-	-	-	236,577		
-	-	-	9,198		
-	-	3,190	19,999		
-	-	-	256,998		
-	-	-	119,656		
-	-	-	46,797		
-	-	400	81,213		
151,469	213,946	26,626	1,454,668		
62,746	-	-	486,489		
11,409	-	-	335,071		
15,878	-	-	256,398		
-	-	-	43,916		
28,277	-	-	180,088		
-	201,880	-	201,880		
118,310	201,880	-	1,503,842		
33,159	12,066	26,626	(49,174)		
-	-	(23,036)	(23,036)		
-	-	-	-		
-	-	-	110,313		
-	-	(3,190)	(109,409)		
-	-	(26,226)	(22,132)		
33,159	12,066	400	(71,306)		
46,962	(33,497)	65,660	76,593		
\$ 80,121	\$ (21,431)	\$ 66,060	\$ 5,287		
\$ -	\$ (21,431)	\$ -	\$ (21,431)		
-	-	-	(292,677)		
80,121	-	-	253,335		
-	-	66,060	66,060		
\$ 80,121	\$ (21,431)	\$ 66,060	\$ 5,287		

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2009

	Water	Sewer	Sanitation	Total
Operating receipts				
Charges for service	344,335	376,314	144,016	864,665
Operating disbursements				
Business type activities	293,396	190,660	132,402	616,458
Excess of operating receipts over operating disbursements	50,939	185,654	11,614	248,207
Non-operating receipts (disbursements)				
Interest on investments	10,958	636	217	11,811
Repayment of TIF debt	23,036	-	-	23,036
Debt service	-	(162,749)	-	(162,749)
Capital projects	(8,800)	(18,445)	-	(27,245)
Total non-operating receipts (disbursements)	25,194	(180,558)	217	(155,147)
Net change in cash balances	76,133	5,096	11,831	93,060
Cash balances - beginning of year	1,080,626	348,151	107,148	1,535,925
Cash balances - end of year	<u>\$ 1,156,759</u>	<u>\$ 353,247</u>	<u>\$ 118,979</u>	<u>\$ 1,628,985</u>
Cash basis fund balances				
Reserved for debt service	\$ 746,277	\$ 1,636	\$ -	\$ 747,913
Unreserved	410,482	351,611	118,979	881,072
Total cash basis fund balances	<u>\$ 1,156,759</u>	<u>\$ 353,247</u>	<u>\$ 118,979</u>	<u>\$ 1,628,985</u>

See notes to financial statements.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2009

	<u>Library Memorials</u>	<u>Tenant Memorial</u>	<u>Stage Project</u>
Receipts			
Donations	\$ -	\$ 510	\$ 986
Investment earnings - interest	<u>-</u>	<u>3,094</u>	<u>-</u>
Total receipts	<u>-</u>	<u>3,604</u>	<u>986</u>
Disbursements			
Operating			
Cultural and recreation	<u>-</u>	<u>-</u>	<u>986</u>
Total Disbursements	<u>-</u>	<u>-</u>	<u>986</u>
Excess of receipts over disbursements	<u>-</u>	<u>3,604</u>	<u>-</u>
Other financing (uses)			
Operating transfers out	<u>-</u>	<u>(904)</u>	<u>-</u>
Net change in cash balances	-	2,700	-
Cash balance - beginning of year	43,833	59,183	1,440
Cash balance - end of year	<u>\$ 43,833</u>	<u>\$ 61,883</u>	<u>\$ 1,440</u>

See notes to financial statements.

CITY OF COLFAX, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1/ Summary of Significant Accounting Policies

The City of Colfax is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units that meet the criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards, commissions and 28E agreement: Jasper County Assessor's Conference Board, Selective Enforcement Response Team and Safety Coalition of Central Iowa Cities, City- County Planning Board, and Central Iowa Committee and a 28 E agreement for police, fire and emergency response with the City of Mitchellville.

The City also participates in the Jasper County Animal Rescue League and Humane Society with other municipalities in an organization under Chapter 28E of the Code of Iowa and paid fees to the organization \$4,113 during the fiscal year.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Colfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the Culture and Recreation function.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2009 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

3/ Notes Payable

The annual debt service requirement to maturity for general obligation notes, and the sewer revenue notes is as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	128,401	20,609	109,335	48,141	237,736	68,750
2011	166,704	18,688	112,498	44,265	279,202	62,953
2012	154,672	11,256	116,736	40,256	271,408	51,512
2013	62,554	4,426	121,052	36,080	183,606	40,506
2014	21,217	1,995	111,468	31,732	132,685	33,727
2015	11,000	1,023	105,000	28,080	116,000	29,103
2016	11,000	512	108,000	24,930	119,000	25,442
2017			112,000	21,690	112,000	21,690
2018			115,000	18,330	115,000	18,330
2019			118,000	14,880	118,000	14,880
2020			122,000	11,340	122,000	11,340
2021			126,000	7,680	126,000	7,680
2022			130,000	3,900	130,000	3,900
Totals	\$ 555,548	\$ 58,509	\$ 1,507,089	\$ 331,304	\$ 2,062,637	\$ 389,813

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$2,160,000 in sewer revenue note and bonds issued in May 2001 and March 2003, respectively. Proceeds were used to provide financing for the construction of improvements to the sewer plant. The obligations are payable solely from sewer customer net receipts and are payable through 2022. The total principal and interest remaining to be paid on the obligations is \$1,838,393. For the current year, principal and interest paid was \$162,749 and total customer net receipts were \$185,654.

The resolutions providing for the issuance of the note and bonds include the following provisions:

- The notes or bonds will only be redeemed from the future earnings of the sewer activity and the holders hold a lien on the future earnings of the sewer fund.
- Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next principal and interest payments.
- The City shall establish, impose, adjust and provide for the sewer rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

During the year, the City had not established sufficient amount for the sinking fund as required by the above resolution.

4/ Tax Increment Financing

In 1988, 1991, and 1999, the City established three urban renewal districts and made agreements with the county and school, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts.

The taxes so collected are paid into a Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts. In prior years, the taxes received were not

sufficient to pay the debt service. Consequently, the Water fund advanced \$77,269 toward debt service. In accordance with the Iowa Code, these advances may now be repaid from the tax increment revenues since the 1999 general obligation refunding note has been retired. During the year, \$23,036 was repaid on this intrafund debt. At June 30, 2009, the balance due is \$3,553.

In July 2001, the City and Jasper County entered into a 28E agreement to develop the Colfax I-80 Interchange Urban Renewal Project area. The City extended its water and sanitary sewer service to the area. By June 30, 2009, the County had loaned the City \$1,197,501 for the extension costs and \$80,175 to reimburse engineering costs. The County shall collect and retain all tax increment revenues collected from the taxable properties located in the area. If upon maturity of the loan, the revenue collected is not sufficient to fully reimburse the County for all the principal and interest paid by the County, on its loan for this specific purpose, the City will be obligated to repay the unpaid balance plus interest at the rate then being paid by the County on its loan. Since the repayment is contingent on future taxes paid in the Urban Renewal Project area, the amounts of the payments are not readily determinable.

5/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$33,038, \$32,880, and \$30,980, respectively, equal to the required contributions for each year.

6/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2009. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, was \$46,000.

7/ Landfill Closure and Postclosure Care

The City has entered into an agreement with several other municipalities, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Newton Sanitary Landfill. State and federal laws and regulations require the Newton Sanitary Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid near or after the date that the landfill no longer accepts waste, the Landfill has estimated the total liability for such to be \$ 4,400,000. This amount is based on 2009 cost estimates. The closure is expected to be in 2015. Actual costs may be higher due to inflation, technology changes, and changes in regulations.

As specified in the 28E agreement, the City is responsible for 4.86% or approximately \$214,000 of the total landfill closure and postclosure costs. The City's proportionate share is updated annually in accordance with the agreement.

8/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Local Option Sales Tax	General	\$ 73,708
Hotel/Motel Tax	General	32,511
Tenant Memorial	General	904
Perpetual Care	General	<u>3,190</u>
Total		<u><u>110,313</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,499 during the year ended June 30, 2009.

10/ Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

12/ Deficit Fund Balances

At June 30, 2009 the General, Road Use Tax, and Debt Service Funds had deficit balances of \$292,677, \$54,167 and \$21,431, respectively. The deficit in the General Fund will be reduced by transfers from the Proprietary Fund operating accounts to the extent possible. The deficit in the Debt Service Fund will be reduced by increasing property tax levies in subsequent years. The deficit in the Road Use Tax Fund will be reduced by future receipts.

13/ Economic Development Loan

With funds from the Iowa Department of Economic Development, the City loaned \$150,000 to a local manufacturing company which employs 40 people. The loan is forgivable to the extent of \$75,000 and repayment is expected on the \$75,000 balance. Principal payment are to be received over 5 years and there is no interest due. Any repayment is to be used by the City for similar projects.

City of Colfax, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Taxes	\$ 661,194	\$ -
Tax increment financing collections	23,036	-
Other city tax	236,577	-
Licenses and permits	9,198	-
Use of money and property	19,999	11,811
Intergovernmental	256,998	-
Charges for Service	119,656	864,665
Special assessments	46,797	-
Miscellaneous	81,213	-
Total Receipts	<u>1,454,668</u>	<u>876,476</u>
Disbursements		
Public safety	486,489	-
Public works	335,071	-
Health and social services	-	-
Culture and recreation	256,398	-
Community and economic development	43,916	-
General government	180,088	-
Debt service	201,880	-
Business type activities	-	806,452
Total Disbursements	<u>1,503,842</u>	<u>806,452</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(49,174)</u>	<u>70,024</u>
Other financing (uses) net	<u>(22,132)</u>	<u>23,036</u>
Excess (deficiency) of receipts over disbursements and other financing uses	<u>(71,306)</u>	<u>93,060</u>
Balance (deficit) - beginning of year	76,593	1,535,925
Balance (deficit) - end of year	<u>\$ 5,287</u>	<u>\$ 1,628,985</u>

See accompanying independent auditors' report.

Budgeted Amounts			
Net	Original	Final	Final to Net Variance
\$ 661,194	\$ 640,401	\$ 640,401	\$ 20,793
23,036	21,871	21,871	1,165
236,577	266,940	266,940	(30,363)
9,198	16,200	16,200	(7,002)
31,810	2,500	2,500	29,310
256,998	187,621	389,381	(132,383)
984,321	1,287,000	1,287,000	(302,679)
46,797	7,000	7,000	39,797
81,213	60,000	108,510	(27,297)
2,331,144	2,489,533	2,739,803	(408,659)
486,489	411,387	518,341	31,852
335,071	287,621	335,966	895
-	5,500	5,500	5,500
256,398	172,079	187,546	(68,852)
43,916	49,971	128,100	84,184
180,088	188,469	212,188	32,100
201,880	210,568	210,568	8,688
806,452	1,146,975	1,146,975	340,523
2,310,294	2,472,570	2,745,184	434,890
20,850	16,963	(5,381)	26,231
904	-	(50,000)	50,904
21,754	16,963	(55,381)	77,135
1,612,518	6,514,352	-	1,612,518
\$ 1,634,272	\$ 6,531,315	\$ (55,381)	\$ 1,689,653

City of Colfax, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2009

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$272,614. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the Culture and Recreation function.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2009

	Special Revenue Urban Renewal Tax Increment	Permanent Cemetery Perpetual Care	Total
Receipts			
Property tax - tax increment financing	\$ 23,036	\$ -	\$ 23,036
Use of money and property	-	3,190	3,190
Miscellaneous	-	400	400
Total Receipts	<u>23,036</u>	<u>3,590</u>	<u>26,626</u>
Excess of receipts over disbursements	23,036	3,590	26,626
Other financing uses			
Repayment of TIF Debt	(23,036)	-	(23,036)
Operating transfers out	-	(3,190)	(3,190)
Total other financing (uses)	<u>(23,036)</u>	<u>(3,190)</u>	<u>(26,226)</u>
Net change in cash balances	-	400	400
Cash balance - beginning of year	-	65,660	65,660
Cash balance - end of year	<u>\$ -</u>	<u>\$ 66,060</u>	<u>\$ 66,060</u>
Cash basis fund balances			
Unreserved			
Permanent fund	\$ -	\$ 65,660	\$ 65,660
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 65,660</u>	<u>\$ 65,660</u>

See accompanying independent auditors' report.

City of Colfax, Iowa
Schedule of Indebtedness
For the year ended June 30, 2009

			Amount Originally Issued
Obligation	Date of Issue	Interest Rates	
General Obligation Notes			
Fire Station and Park Project	March 2, 1998	5.00%	\$ 400,000
City Hall Note	April 1, 2002	5.00%	35,000
South Sewer	April 14, 2003	3.50%	400,000
Corporate Purpose Note	August 15, 2001	5.00%	150,000
Municipal Swimming Pool Repairs and Improvements to City Park, Ball Fields, and Tennis Courts			
Lake Street Sewer	October 1, 2004	4.50%	100,000
Federal Street Improvements	February 15, 2008	4.50%	75,000
Water and Sewer Improvements	October 24, 2006	4.65%	110,000
Corporate Purpose Note			
Sewer Equipment and Streetsweeper Totals	September 15, 2005	4.50%	232,500
Revenue Note and Bonds			
Sewer Revenue Bonds	March 15, 2003	3.00%	\$ 1,910,000
Sewer Revenue Note	May 8, 2001	6.25%	250,000
Totals			

The accompanying notes to financial statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 131,744	\$ -	\$ 30,569	\$ 101,175	\$ 6,682	\$ -
14,000	-	3,500	10,500	700	-
160,000	-	40,000	120,000	5,682	-
51,097	-	18,968	32,129	2,332	-
65,166	-	11,672	53,494	2,822	-
60,000	-	15,000	45,000	2,739	-
88,000	-	11,000	77,000	4,150	-
155,000	-	38,750	116,250	7,313	-
<u>\$ 725,007</u>	<u>\$ -</u>	<u>\$ 169,459</u>	<u>\$ 555,548</u>	<u>\$ 32,420</u>	<u>\$ -</u>
\$ 1,505,000	\$ -	\$ 88,000	\$ 1,417,000	\$ 45,150	\$ -
112,950	-	22,861	90,089	6,738	-
<u>\$ 1,617,950</u>	<u>\$ -</u>	<u>\$ 110,861</u>	<u>\$ 1,507,089</u>	<u>\$ 51,888</u>	<u>\$ -</u>

City of Colfax, Iowa
Bond and Note Maturities
For the year ended June 30, 2009

Year Ending June 30,	Fire Station and Park		City Hall		South Sewer	
	Issued March 2, 1998		Issued April 1, 2002		Issued April 14, 2003	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2010	5.00	32,097	5.00	3,500	3.50	-
2011	5.00	33,702	5.00	3,500	3.50	40,000
2012	5.00	35,376	5.00	3,500	3.50	40,000
2013					3.50	40,000
2014						
2015						
2016						
Totals		<u>\$ 101,175</u>		<u>\$ 10,500</u>		<u>\$ 120,000</u>

Sewer and Streetsweeper			Federal Street Improvements		Total General Obligations
Issued September 15, 2005			Issued February 15, 2008		
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2010	4.65	38,750	4.50	15,000	128,401
2011	4.65	38,750	4.50	15,000	166,707
2012	4.65	38,750	4.50	15,000	154,672
2013					62,554
2014					21,214
2015					11,000
2016					11,000
Totals		\$ 116,250		\$ 45,000	\$ 555,548

See accompanying independent auditors' report.

Pool and Park		Lake Street Sewer		Water and Sewer Improvements	
Issued August 15, 2001		Issued October 1, 2004		Issued October 24, 2006	
Interest		Interest		Interest Rates	
Rates (%)	Amount	Rates (%)	Amount	(%)	Amount
5.00	17,944	4.50	10,110	4.65	11,000
5.00	14,185	4.50	10,570	4.65	11,000
		4.50	11,046	4.65	11,000
		4.50	11,554	4.65	11,000
		4.50	10,214	4.65	11,000
				4.65	11,000
				4.65	11,000
<u>\$</u>	<u>32,129</u>	<u>\$</u>	<u>53,494</u>		<u>\$ 77,000</u>

Sewer Revenue Note			Sewer Revenue Bonds		
Issued May 8, 2001			Issued March 15, 2003		
Year Ending	Interest		Interest Rates		Total Sewer
June 30,	Rates (%)	Amount	(%)	Amount	Notes & Bonds
2010	6.25	18,335	3.00	91,000	109,335
2011	6.25	19,498	3.00	93,000	112,498
2012	6.25	20,736	3.00	96,000	116,736
2013	6.25	22,052	3.00	99,000	121,052
2014	6.25	9,468	3.00	102,000	111,468
2015			3.00	105,000	105,000
2016			3.00	108,000	108,000
2017			3.00	112,000	112,000
2018			3.00	115,000	115,000
2019			3.00	118,000	118,000
2020			3.00	122,000	122,000
2021			3.00	126,000	126,000
2022			3.00	130,000	130,000
Totals		\$ 90,089		\$ 1,417,000	\$ 1,507,089

City of Colfax, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Government Funds
As of and for the year ended June 30, 2009

	2009	2008	2007	2006	2005	2004
Receipts						
Property taxes	\$ 661,194	\$ 627,494	\$ 583,887	\$ 529,100	\$ 557,068	\$ 504,922
Tax increment financing collections	23,036	17,140	17,426	16,114	17,510	21,114
Other city tax	236,577	229,257	213,583	338,289	181,448	12,802
Licenses and permits	9,198	12,363	22,075	19,277	15,622	23,828
Use of money and property	19,999	22,702	22,415	14,512	5,579	8,087
Intergovernmental	256,998	418,635	256,279	207,885	196,590	409,494
Charges for service	119,656	144,787	108,484	140,273	197,131	179,847
Special assessments	46,797	-	-	-	-	-
Miscellaneous	81,213	24,970	73,784	93,437	119,495	96,512
Total	\$ 1,454,668	\$ 1,497,348	\$ 1,297,933	\$ 1,358,887	\$ 1,290,443	\$ 1,256,606
Disbursements						
Operating						
Public safety	\$ 486,489	\$ 408,237	\$ 384,234	\$ 376,397	\$ 512,601	\$ 349,459
Public works	335,071	503,078	246,762	326,697	284,064	266,345
Health and social services	256,398	-	-	-	6,182	-
Culture and recreation	43,916	186,962	174,050	180,711	167,381	215,444
Community and economic development	180,088	83,565	3,001	3,000	3,001	246,697
General government	201,880	177,694	200,153	272,783	284,583	300,788
Debt service		242,514	188,570	172,458	122,653	181,621
Total	\$ 1,503,842	\$ 1,602,050	\$ 1,196,770	\$ 1,332,046	\$ 1,380,465	\$ 1,560,354

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Colfax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we considered to be a significant deficiency and we considered to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be

significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item I-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Colfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Colfax's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colfax and other parties to whom the City of Colfax may report. This report is not intended to be and should not be used by anyone other than these specified parties.

January 27, 2010

Pollard and Company P.C.

CITY OF COLFAX, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing
journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

In February 2009, we involved the mayor, council, deputy city clerk, and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate duties to the extent possible.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-09 Certified Budget

Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the Culture and Recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. In addition the beginning balance in the second budget amendment budget was reported as \$ 0 rather than the \$1,612,518 actual balance .

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget and to correct the beginning balances.

Response

The budget will be correctly amended in the future, as applicable.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting (continued)

II-B-09 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense

We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

II-D-09 Business Transactions

Business transactions between the City and City officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryan Poulter, Council Member, Swimming Pool Manager	Swimming Pool Manager Wages	\$2,499

In accordance with Chapter 362.5(10) of the Code of Iowa, this transaction does not appear to be a conflict of interest, since the duties of the function are not incompatible with duties as a Council Member.

II-E-09 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

Although the minutes were published as required, they did not always contain a summary of the disbursements by fund, or a summary of receipts in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation

The City should comply with the Code of Iowa and publish a summary of the disbursements by fund, and a summary of the receipts

Response

We will publish the summary of disbursements by fund and a summary of receipts as required.

Conclusion - Response accepted

II-G-09 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-09

Revenue Bonds and Notes

As noted in Note 3, the City was not in compliance with the revenue bonds resolution.

Recommendation

The City should set aside, monthly in a sewer sinking fund, 1/6th of the next interest payment and 1/12th of the next principal payment for the sewer bonds.

Response

The monthly amounts will be set aside.

Conclusion

Response accepted.

II-I-09

Financial Condition

The General, Road Use Tax, and Debt Service Funds had deficit balances at June 30, 2009 of \$292,677, \$54,167, and \$21,431, respectively.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Note 12 of the financial statements describes the City's plans to eliminate the deficits.

Conclusion

Response accepted.

II-J-09

Time Cards

The supervisors did not approve all time records submitted by employees.

Recommendation

All time records should be approved by the employee's supervisor.

Response

A supervisor will approve the time records of affected employees.

Conclusion

Response accepted.